

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03  
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AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
AMEMBASSY MOSCOW  
AMEMBASSY OTTAWA  
USMISSION EC BRUSSELS  
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E.O.11652: N/A  
TAGS: ETRD, EFIN, EEW, UK, UR  
SUBJECT: UK CONSORTIUM WINS 100 MILLION POUND CONTRACT  
WITH SOVIET UNION  
REF: (A) LONDON 1655; (B) LONDON 7812

SUMMARY. A CONSORTIUM OF THREE COMPANIES LED BY ROLLS-ROYCE (1971) HAS SIGNED THE LARGEST SINGLE CONTRACT IN THE HISTORY OF ANGLO-SOVIET TRADE. THE 100 MILLION POUND (169 MILLION DOLLAR) DEAL IS FOR 42 GAS PUMPING MODULES TO BE USED IN 600 MILE CHELYABINSK PIPELINE IN WESTERN SIBERIA AND REPRESENTS THE FIRST SUBSTANTIAL SOVIET DRAWING ON 950 MILLION POUND CREDIT EXTENDED BY UK IN JANUARY OF 1975. TWO U.S. AFFILIATES ARE REPRESENTED IN CONSORTIUM, BUT 86 PERCENT OF PRODUCTION WILL BE DONE IN UK, WITH MOST OF REMAINDER IN CANADA. UK FINANCING BEING ARRANGED BY MORGAN GRENFELL AND GUARANTEED BY ECGD. SOVIET

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CONTRACT WILL HELP UK'S TRADE DEFICIT WITH USSR SOMEWHAT,

BUT RECENT FIGURES SHOW CONSIDERABLE DETERIORATION IN UK POSITION. END SUMMARY.

1. THE WINNING CONSORTIUM OF THREE COMPANIES IS KNOWN AS COBERROW AND CONSISTS OF ROLLS-ROYCE (1971) AND THE UK AFFILIATES OF TWO AMERICAN COMPANIES, COOPER INDUSTRIES AND WILLIAMS BROTHERS. UNDER THE CONTRACT SIGNED DEC. 9, ROLLS-ROYCE WILL PROVIDE 42 AIRCRAFT-TYPE AVON GAS TURBINE ENGINES, COOPER WILL SUPPLY CENTRIFUGAL COMPRESSORS, AND WILLIAMS WILL DO PIPELINE ENGINEERING AND INSTALL EQUIPMENT. ORDER INCLUDES 12 SPARE AVON ENGINES, MAINTENANCE FACILITIES AND AN OVERHAUL BASE. DELIVERY OF COMPLETED MODULES IS EXPECTED TO BEGIN LATTER HALF OF NEXT YEAR, WITH ABOUT HALF TENTATIVELY SCHEDULED FOR DELIVERY IN 1977 AND HALF IN 1978.

2. THE COMBINED UK ENGINE/COMPRESSOR MODULE IS DESCRIBED AS A "LIGHTWEIGHT" SYSTEM IN CONTRAST TO GENERAL ELECTRIC'S HEAVYWEIGHT PLANT WHICH HAS BEEN USED EXCLUSIVELY THUS FAR BY USSR IN ITS EXTENSIVE PIPELINE SYSTEM. UK INDUSTRY CONSIDERS ROLLS-ROYCE DEAL A "REAL BREAKTHROUGH" AND REPORTS THAT GE COMPETED FEROCIOUSLY TO CONTINUE ITS EXCLUSIVE POSITION WHICH HAS RESULTED IN OVER A BILLION DOLLARS IN TURBINE COMPRESSOR SALES TO USSR DURING PAST FIVE YEARS.

3. UK FINANCING WILL COME UNDER 950 MILLION POUND CREDIT EXTENDED BY FORMER PRIME MINISTER WILSON DURING HIS VISIT TO MOSCOW EARLY LAST YEAR (SEE REF A). UK PORTION OF FINANCING BEING ARRANGED BY MORGAN GRENFELL, WHICH WILL MAKE AVAILABLE A LOAN TO USSR'S BANK FOR FOREIGN TRADE FOR 80 PERCENT OF BRITAIN'S 86 MILLION POUND PORTION OF CONTRACT (I.E., A LOAN OF ABOUT 67-68 MILLION POUNDS). ON BASIS OF PREVIOUS INFORMATION REPORTED REF A, WE UNDERSTAND THE RATE OF INTEREST WILL BE 7.0 PERCENT (PLEASE PROTECT THIS FIGURE). THIS LOAN WILL BE GUARANTEED BY EXPORT CREDITS GUARANTEE DEPARTMENT (ECGD), WHICH WILL PAY THE LOANING BANK A SUBSIDY TO HELP OFFSET THE DIFFERENCE BETWEEN THE 7 PERCENT AND THE MARKET RATE OF INTEREST. PRESS REPORTS SAY CANADIAN PORTION OF CONTRACT

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WILL BE FINANCED BY A 14 MILLION POUND LOAN FROM THE EXPORT DEVELOPMENT CORPORATION OF CANADA.

4. ADVANCE UK-USSR TRADE FIGURES FOR FIRST TEN MONTHS OF 1976 SHOW A CONSIDERABLE DETERIORATION IN UK'S POSITION, AFTER A NOTICEABLE IMPROVEMENT IN 1975. THE UK'S DEFICIT ON TRADE ACCOUNT WAS DOWN TO 201 MILLION POUNDS IN 1975, AFTER A 285 MILLION POUND DEFICIT IN

1974, BUT JAN.-OCT. DEFICIT FOR 1976 IS 359 MILLION POUNDS. RATIO IN USSR'S FAVOR OF 3.6 TO 1 IN 1974 WAS REDUCED TO 1.9 TO 1 IN 1975, BUT HAS RISEN AGAIN TO 2.7 TO 1 IN USSR'S FAVOR DURING FIRST 10 MONTHS OF 1976.

5. MOST OF UK'S RECENT PROBLEM HAS BEEN CAUSED BY SOAR-

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ING IMPORTS FROM USSR DURING JAN.-OCT. OF THIS YEAR: UK IMPORTS ARE UP 73 PERCENT OVER SAME PERIOD LAST YEAR, WHILE EXPORTS TO USSR ARE UP ONLY 19 PERCENT. APPROXIMATELY 80 PERCENT OF UK'S IMPORTS FROM RUSSIA FOR THIS PERIOD CONSISTED OF PETROLEUM AND PETROLEUM PRODUCTS, NON-METALLIC MINERALS, TIMBER AND TEXTILE FIBERS -- BUT

BULK OF OVERALL INCREASE IN IMPORTS OCCURRED IN PETROLEUM AREA. PETROLEUM AND PETROLEUM PRODUCT IMPORTS FROM USSR ALMOST QUADRUPLED, FROM 49 MILLION POUNDS DURING JAN.-OCT. 1975 TO 192 MILLION POUNDS FOR SAME PERIOD THIS YEAR.

6. CLEARLY, UK WILL HAVE A SUBSTANTIAL DEFICIT ON TRADE ACCOUNT WITH USSR FOR 1976 OVERALL. UK'S 56 MILLION POUND SHARE OF GAS PUMPING MODULE CONTRACT WILL EASE PROBLEM  
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SOMEWHAT IN 1977 AND 1978, BUT WILL NOT COME CLOSE TO CLOSING THE GAP. ONLY OTHER SIGNIFICANT UK SALES TO USSR CLOSE TO FRUITION THAT WE ARE AWARE OF ARE TWO SMALL PROJECTS WORTH A TOTAL OF ABOUT 8 MILLION POUNDS. IF THESE TWO PROJECTS GO THROUGH, ABOUT 146 MILLION POUNDS OF THE 950 MILLION POUND CREDIT TO USSR WILL HAVE BEEN USED -- STILL WELL BELOW UK GOVERNMENT EXPECTATIONS.

7. DEPARTMENT OF TRADE OFFICIALS REMAIN OPTIMISTIC, HOWEVER, FOR THREE REASONS. THEY NOTE NEW SOVIET FIVE-YEAR PLAN HAS RECENTLY BEEN APPROVED, REMOVING A BOTTLENECK TO NEW CONTRACTS. SECOND, SOVIET LEADERS ARE NOW SEEN TO BE SATISFIED THAT GRAIN HARVEST WILL BE A GOOD ONE AND THIS SHOULD SURE UP RESOURCES. AND FINALLY, THE INTEREST RATES IN UK-USSR CREDIT AGREEMENT COME UP FOR RENEGOTIATION SUMMER OF 1977 AND SINCE RATES SEEM LIKELY TO GO UP, UK OFFICIALS FEEL THERE WILL BE SOME PRESSURE ON USSR IN SHORT RUN TO SIGN CONTRACTS.

8. COMMENT. WHILE ROLLS-ROYCE DEAL REPRESENTS CONSIDERABLY LESS THAN THE 4-500 MILLION POUNDS IN NEW CONTRACTS THAT UK HAD HOPED TO SIGN WITH USSR BY END OF THIS YEAR, GOVERNMENT OFFICIALS ARE ELATED AT WHAT THEY SEE AS A CONSIDERABLE COMMERCIAL AND DIPLOMATIC TRIUMPH. THE FAILURE OF THE USSR TO USE THE PROFFERED CREDIT HAD BECOME AN EMBARRASSING POINT FOR THE GOVERNMENT.

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